

NON-PRICE FACTORS OF RETAIL PRICE IMAGE

Jelena Franjkovic

*Faculty of Economics in Osijek, Croatia
jelena.franjkovic@efos.hr*

Ana Pap

*Faculty of Economics in Osijek, Croatia
ana.pap@efos.hr*

Ana Zivkovic

*Faculty of Economics in Osijek, Croatia
ana.zivkovic@efos.hr*

ABSTRACT

With the strengthening of competition in contemporary retail, companies are competing with price and quality elements. Therefore, creating a price image and managing it is becoming increasingly important. The paper deals with grocery retail, in whose stores consumers very often make purchase. Nevertheless, consumers are more often guided by price perception than actual prices. Price provides information to consumers, but price itself has no meaning. It is understandable to consumers only in a certain context that includes other information such as product, brand, and/or store. Following this logic, the price image is formed not only based on prices themselves but also based on different price dimensions and non-price factors. Non-price factors can improve the understanding of how consumers evaluate prices. This paper aims to conduct a literature review on non-price factors of retail price image – product range, private label product range, design and atmosphere of the store, service level, and location, and to conclude about their role in price image perception.

Keywords: *Location, Price image, Private label, Product range, Retail store, Service level, Store design, Store atmosphere*

1. INTRODUCTION

Price image represents a marketing concept that belongs to behavioural research on prices. One of the most cited definitions of retailer price image is the one given by Hamilton and Chernev (2013) who define it „as the general belief about the overall level of prices that consumers associate with a particular retailer “. That consumers' general belief is formed not only based on prices themselves but also based on different price dimensions and non-price factors. Non-price characteristics of retailers have a very important role in the formation of the price image which has been emphasized by numerous authors (e.g., Baker et al., 2002; Grewal and Compeau, 2007; Mägi et al., 2017). Consumers' reliance on non-price characteristics when forming a price image may lead to the fact that they do not even notice the overall change in the price level (Mägi et al., 2017). Therefore, the aim of this paper is to conduct a literature review on non-price factors of retail price image. There has been a lack of research that considered non-price factors as potentially influential variables of retail price image perception. It is certainly expected that retailers with their non-price characteristics can influence the perception of consumers about the prices in their offer. Non-price factors can support price factors in achieving the desired price image and strengthening it, but they can also diminish the importance of price factors.

2. RESEARCH FRAMEWORK

Some of the non-price factors are also considered to be part of the cognitive process of retail store evaluation. Haryono and Sihombing (2018) state that this process is manifested through social characteristics (employees, service, appearance), design (lighting, displays), ambience (decoration, music) and assortment characteristics (type, quality) and that it occurs when the buying process is easy for the consumer and when they have positive impressions and opinions about the store. The non-price characteristics of retailers are to some extent determined by the retail format through which they operate. Koschmann and Isaac (2018) analysed how consumers associate different retail formats with different price images. They considered the level of convenience, customer service, frequency of promotions, width and depth of product range, cost structure (the perception of the consumers that “this retail format probably has more purchasing prices”), and the atmosphere during the shopping. The authors came to the result that the listed features explain 25.3% of the variance in the consumer's assessment of the price image of a particular retail format. The latter also highlights the necessity of considering the non-price factors while managing the price image, as well the necessity of academic research on it. Based on the literature (e.g., Haryono and Sihombing, 2018; Mägi et al., 2017; Hamilton and Chernev, 2013), non-price factors of retail price image include elements of the retail marketing mix. The product range is a retailer's product and by choosing it, retailers can direct the price level - for example, by choosing a higher quality and more expensive branded products. However, in recent years there has been a very strong development of products under the private label of retailers, so the product range is divided into general (with an emphasis on brands) and the range of private label products. Considering that consumers are visual beings, it can be expected that the design and atmosphere of the store where they buy, will affect the perception of price image. A nicer atmosphere and design perceived as more expensive will possibly lead to the perception of the higher price image. By the same logic, a better service level, e.g., more sales staff and more different forms of serving, can also affect the perception of the price level as higher. And finally, a better store location that consumers get to faster and easier, without the use of a car, can also point to higher prices. The following chapter provides the literature review on the described non-price factors.

3. LITERATURE REVIEW ON NON-PRICE FACTORS OF RETAIL PRICE IMAGE

3.1. Product range

The product range is one of the key marketing and identification elements for the retailer. Moreover, it represents the retailer's product. Kumar et al. (2017) define the product range as “a set of products and/or services that a retailer provides to consumers”. Graciola et al. (2018) point out that the product range also expresses the identity of the retailer with its composition. Therefore, it is also related to the price image if it can have a certain symbolic meaning for consumers. The retailer's product range with its composition, width, and depth certainly affects consumers' perception of the quality of the offer. The more well-known brands of manufacturers are in the range, it is expected that the perceived quality, but also the perceived retailer's price image will be higher. In line with the definition of price image given by Hamilton and Chernev (2013), Popp and Woratschek (2017) defined the price image of a (product) brand as “a general belief about the overall price level that consumers associate with a particular brand”. Since the manufacturer brand includes a smaller number of items, there is less diversity in the overall marketing communication, and it is easier for consumers to form an opinion about the price image of an individual brand. Indirectly guided by this, consumers can also create the impression of the retailer's price image given the presence of certain manufacturer brands in their product range. Given that price promotions are inseparable from the products and with a focus on well-known manufacturer brands, it is appropriate to mention that Empen et al. (2015) proved that well-known brand products are less common at price

promotions than less well-known brand products. Certainly, this fact also facilitates the formation of their price image because consumers are not confused about their quality and overall image by frequent discounts. The more low-priced products there are in the product range, it is more likely that consumers will form an opinion of the retailer's price image as that of low prices, emphasizing that this is true for consumers who have a good knowledge of prices. Those with poorer knowledge of prices rely on the ease of remembering low prices, emphasized through price communication, advertisements, and other features of low prices (Lowe et al., 2013). Given that the product range also includes a large proportion of mid-priced products, it is important to point out that mid-level products (e.g., quality, price) generally take a higher market share from lower-level products than from higher-level products (Simonson and Tversky, 1992). How this will affect consumer perception depends on their intentions, whether they have a real intention to buy the product or just look around the store. Koschmann and Isaac (2018) investigated the influence of product range width and depth on price image and regression analysis showed that the width has a statistically significant negative influence on price image, while depth, i.e., diversity in each product category, had no statistically significant influence. The same authors believe that consumers form an opinion about the availability of well-known brands and their prices at different retailers. Consumers themselves expect that a well-known brand will be more likely available at a retailer with a high price image than one with a low-price image and that they will pay more for the same branded product from retailers with a higher price image. These authors made a difference between retail formats that are not directly comparable, using a drugstore as a retail format of high price image and mass merchant format for that of low price image. For the purposes of this paper, grocery retailers are investigated and the differences between them are less highlighted. Nevertheless, the analogy is similar and leads to the conclusion that regardless of the retail format, the product range, that represents the product of the retailer, has a certain connection with the price image. Further on, Lourenco et al. (2015) state that in traditional supermarkets, the price image is affected by the diversity of quality in the product category and longer-lasting products that are purchased in larger quantities and can be stored for some time in the household. On the other hand, at hard discounters, the price image is affected by categories that contain a lot of different SKUs and categories that consumers frequently buy. Given the environmental trends and greater consumer awareness of health and nutrition, many retailers are introducing organic products into their range, especially semi-organic, i.e., those between conventional and organic (Van Herpen et al., 2015). Such products raise the quality of the retailer's offer, and in fact, for FMCG retailers are more suitable than completely organic. Completely organic are more suitable for specialized stores given the smaller segment of consumers who buy them, primarily because of their price. Van Herpen et al. (2015) showed that the choice of such products depends on the place of their display on the shelves, depending on the level of their prices. It depends on whether consumers compare them with conventional products when their price is lower and are exposed among them, or they perceive them as a separate, healthier category of products separately displayed when their prices are at a higher level. Therefore, the intensity of the presence of this type of products among different product categories can affect the perception of price image. It will certainly be perceived as that of higher prices since the prices of such products are generally higher than the prices of conventional products, but also positive because the retailer seeks to provide consumers with a healthier diet, but at more affordable prices than in specialized stores. In any case, the goal of retailers should be the best possible selection and the best possible display of products on the shelves, to achieve a recognizable identity. This facilitates the achievement of a price image that will attract consumers to stores and encourages their purchase by good exposure of products at the point of sale.

3.2. Private label product range

Retail brands or private labels (PL) have been present on the retail shelves for a long time. They have gained in importance with the consolidation of retailers whose bargaining power in the food supply chain has grown with their size. As the main advantages that PL brings to the retail market, the OECD (2014) recognizes the strengthening of competition and potentially lowering the price level, while the quality remains at the same level. On the other hand, there is a suspicion of stagnation of innovation that will depend only on manufacturers. Due to lower price levels, manufacturers could invest less in research and development, and a further increase in retailers' power could result from an increase in consumer loyalty to their stores. All these shortcomings apply to the entire supply chain, while retailers with their PL generally achieve only benefits for their business. At the beginning of PL development, their success was most often attributed to their price, in contrast to manufacturers' brands whose success is most often contributed by the symbolic value they provide to consumers (Vranešević, 2007). Rekettye and Liu (2018) believe that consumers regularly evaluate the quality of a product or offer based on price because the price is the easiest factor through which the quality can be expected. The existence of a price-sensitive consumer segment was one of the reasons for the emergence of PL focused on reducing cost (price) and quality. However, the price is no longer the only factor influencing PL performance. It is also important to point out that Vranšević (2007) believes that the image of retailers affects the image and perception of the quality of its PL products. Retailers have realized that low-quality products and prices can damage their overall image. Therefore, it can be expected that with the continuous development and growth of sales of PL products, they also affect the perception of the image and price image of retailers. The goal of retailers is no longer just to provide a (low-quality) product at a low price, but a product of equal quality at a slightly lower or even equal price of manufacturer brands. Accordingly, it can be considered that especially the retail formats of discounters have made a step forward in this because Ter Braak et al. (2013) point out that low prices of their PL products are not necessarily achieved at the expense of their quality. In addition, they believe that the producers of well-known national brands are helping them to achieve quality, but at the same time creating stronger competition for themselves. However, Ter Braak et al. (2013) state that the strongest manufacturers strictly separate the production of PL products from their brands, even by opening other companies, all to preserve their image among consumers. Retailers manage their private labels just as manufacturers manage their brands, deciding on all marketing decisions, and thus of course on the basic marketing mix - 4P. The decision that is made much easier for retailers is the one about distribution since they have secured placement in their stores. Apart from the fact that they do not negotiate the listing and locations of points of sale, they also do not negotiate on consumer prices, especially not price discounts, and other marketing activities. The quality of the FMCG retail products is somewhat easier to compare than, for example, the offer of retail clothing, precisely because they often have the same branded products of well-known manufacturers in their range. However, they often differ in the number and variety of SKUs in certain product categories, and the comparison of quality is made difficult by the presence of many PL products. Since consumers tend to buy from more than one retailer (Baltas et al., 2010) and can choose between the same manufacturer brands, PL products are one of the key differences among retailers' product ranges. PL products are never identical within different retailers, including the appearance of the packaging, product composition, and size. Therefore, the price combined with PL brand, general image, and retail price image is often the key measure of quality. Precisely because of the low prices in the absolute amount of food products and other products of everyday use, Vranešević (2007) states that it is easier for grocery retailers, which have most of these categories, to sell PL products that will be accepted by consumers.

There are numerous benefits that retailers gain by developing, managing, and selling PL products, such as achieving higher margins and reducing dependence on manufacturers of well-known brands. In addition to achieving a higher margin by managing their brand, Kumar and Kim (2014) state that retailers have introduced PL to differentiate themselves from other retailers with their offer. It is useful to point out the advantage mentioned, among others, by Vranešević (2007), which is that retailers can improve their image with positive perception and the image of their PL. The difference between both the price and quality of PL and manufacturers brands was significant in the past. Today this difference is almost non-existent. A mitigating circumstance for retailers is also that these are mostly products (FMCG products) where the symbolic value is not crucial.

3.3. Design and atmosphere of the store

In-store design and atmosphere cannot and should not be neglected given that people are generally visual beings. When shopping, consumers are exposed to numerous stimuli and experience the purchase with all their senses. Grace and O'Cass (2005) believe that the physical environment in which consumers shop has a very important role in retail because it creates a shopping experience for them and potentially encourages them to buy. The atmosphere of the store can be defined as "factors of the store's ambience that affect the purchasing mood of consumers" (Kumar et al., 2017). The better the mood, it can be assumed that consumers are also less price-sensitive, so Lowe et al. (2013) state that studies indicate that the atmosphere and environment in which consumers make purchases increase their willingness to pay. Baker et al. (1994) believe that retail marketing elements in a store such as colour, lighting, decorating style, or music may have more influence on consumer decision making than, for example, advertising (external, through the media) that is not present in the store. Baker et al. (2002) state that the atmosphere in the store provides consumers with certain information, i.e., they perceive important characteristics based on which they can form an opinion about the prices, services, or products offered in the store. To complete the notion of the above, it is interesting to cite the situation described by Rekettye and Liu (2018). Namely, they described an example in which the consumer had already chosen bananas to buy but changed his mind and gave up buying because he thought they were too expensive, concluding only based on the store appearance, without knowing the price of bananas at other retailers. Accordingly, Koschmann and Isaac (2018) presented by regression analysis how the atmosphere in the store has a statistically significant positive effect on the price image. In contrast, Haryono and Sihombing (2018) in their study did not find a statistically significant association between store atmosphere and store cognitive assessment, explaining that probably the main reason for this was a survey sample dominated by very young Z-generation consumers. O'Cass and Grace (2008) also did not prove the shopping environment and atmosphere as a statistically significant influencing variable on value for money, which can represent one dimension of the price image. Elements of store design and atmosphere have a stronger impact on consumers who do not have detailed information about product characteristics, their price, or quality (Zeithaml, 1988). Therefore, it could be expected that the more consumers are familiar with the retailers' offer, the less the atmosphere in the store will have an impact on the price image. Discounters retail formats appeared on the market with extremely modestly decorated stores, which reflected their low prices. They did not provide many services, but consumers accepted it precisely because of the low prices. However, one can also see the characteristics of the concept of the wheel of retailing, which indicates that discounters are slowly improving the shopping experience, at least in terms of design and atmosphere in the store. According to IGD (2019), Lidl in France continues to improve its stores through improved layouts and shopping experiences for consumers. A step forward in decoration and a better atmosphere in the store is visible in other countries as well, e.g. Croatia.

In the newly opened stores or redecorated ones, the floor is renewed with large modern tiles, the aisles are much wider, the interior walls are covered with warm wood panelling, and glass walls let in a lot more daylight - while prices are the same as in their other stores, that haven't been improved yet. It is to be expected that the store design and atmosphere have a certain influence on the perception of the price image of retailers, but also that it depends on how recognizable and strong other elements of the retail business are.

3.4. Service level

The service that retailers provide to consumers is very layered and could be broken down into many components, visible and invisible to consumers. It is emphasized that the level of service in retail differs significantly from other service activities and represents a combination of products and services (Mehta et al., 2000). Thus, Keh and Teo (2001) argue that retailers offer two types of products - tangible, which represent the actual products they sell, and intangible. The intangible product that retailers provide is precisely their distribution service and all the activities involved, from the locations of their stores where consumers can make their purchases, providing information, product selection, and product availability, and the shopping atmosphere achieved through the physical environment and level services. For example, as a very important component of the service level, Bouzaabia et al. (2013) point out the level of logistics service in the store such as the level of out-of-stock, returns, availability of shopping aids (e.g. baskets), ease of taking products from shelves for consumers and the level of information. For the purposes of this paper, the service level primarily refers to the store service level provided by staff, while some other features such as store atmosphere and location are addressed as separate factors. Grace and O'Cass (2005) consider the level, i.e. quality of service, to be a multidimensional feature, but also consider that in-store staff has a key role in the perception of the service provided and represents a very important element of the overall retailer offer. Their role is irreplaceable because the processes that provide retail service are performed by employees and the entire service depends on their work and behaviour (Cass and Grace, 2008). It can be said that the work can refer to those processes that are both visible and invisible to consumers, while the behaviour is primarily related to communication with consumers. The importance of staff and their role in communicating with consumers and delivering services that are in direct contact with consumers, such as providing product or price information or billing, is also emphasized by Pugh (2001) who believes that consumer perception of service provided by store staff, can have a very significant role in the overall assessment of the level of retail services. Also, the importance of the service provided is further emphasized as research has shown that the level of service, and especially service provided by staff, affects the perceived value for money provided by the retailer (O'Cass and Grace, 2008; Grace and O'Cass, 2005), a feature already mentioned as one of the possible dimensions of the retail price image. Furthermore, the price image can be compared to some extent with the corporate image because it is expected that they should be harmonized with each other. The impact of service level on the corporate image was investigated by Yu and Ramanathan (2012) and concluded that there is a statistically significant positive impact. A higher level of service improves the perception of the corporate image. Exploring different retail formats, including the level of service that included staff kindness and consumer-friendly business policy, Koschmann and Isaac (2018) concluded based on a regression analysis that the level of service has a statistically significant positive effect on price image. It is interesting to mention that Wu et al. (2011) showed in their research that the level of retail service directly affects the image of its PL products, but not the intention to buy them. Finally, the level of service is directly related to the level of prices that the retailer offers in the market. Considering that mark-up, i.e. the difference in retail price must cover all costs incurred in the company (Rekettey and Liu, 2018), a higher level of service leads to higher prices as well.

More in-store staff that consumers can talk to, more serving services (various delicatessen, fresh meat, fish, or ready-made hot dishes), or more open cash registers can suggest to consumers that because of such service level, the prices will be higher.

3.5. Location

The location has always been one of the key factors for retail business success - it is important to be in a frequent and easily accessible location. With the development of online retail, the location of physical stores has lost some importance, but this is more related to, for example, retail of electronic products, while for the grocery stores it is less expressed. Bell (2014) points out that even in contemporary retail, despite the strong development of e-commerce, location is still "everything". Since the location decision is long-term, it is made at a strategic level and is extremely important for retailers because it cannot be changed quickly, easily, and cheaply. Popkowski Leszczyc et al. (2004) state that retailers consider the location decision from two aspects - the distance of the store from the consumer and the distance from the competition. The latter has an impact on the choice of pricing strategy, as at higher average distances of competition, retailers are more inclined to use high-low (HiLo) pricing strategy (Gauri et al., 2008), given that their location is suitable for the larger trading area and less emphasis on prices. In addition, the cost of the location itself for the retailer directly affects the final price on the shelf. The cost of buying or renting store space varies significantly depending on whether it is a location in the city centre, on the outskirts of the city, in a rural or tourist-developed area. Whether retailers will adjust the sales price of the product depending on the location depends on their pricing strategy, but also on the price image they want to achieve – consistent prices and price image no matter the location or price segmentation that will probably blur and disturb the clear price image. The location of the store can often be the main reason for purchasing at a retailer, as most consumers want to reduce both the monetary (transportation cost) and non-monetary cost (time) of grocery shopping. Bell et al. (1998b) argue that location is not a sufficient explanation for choosing a store to buy. Location is part of the fixed cost of shopping because that cost exists whether consumers go shopping for one or a dozen products. Therefore, consumers may prefer stores with a high fixed cost (remote location) for their large purchases (variable cost), as this distributes this fixed cost into a larger number of products. Given that Bell et al. (1998b) point out that consumers are most likely to visit the store with the lowest total purchase cost, retailers can be considered to combine exactly that - remote store locations on the outskirts of the city that represent a high fixed cost for consumers, often have a lower variable cost than stores in better (closer) locations. Popkowski Leszczyc et al. (2004) state that there are two extremes - extremely convenient locations, such as neighbourhood stores, and much less convenient locations, such as the one on the outskirts of the city where consumers probably go by car. The location is intertwined with other retail elements, so stores in better locations will often be smaller and likely to offer better quality products and personal contact with employees. On the other hand, on the outskirts of the city are mostly large stores, with a very wide product range and lower prices, but also with less personal service. Because of all the above, it can be expected that the location itself could affect the price image of retailers. The location of the *Every Day Low Prices* (EDLP) retailers is mostly on the outskirts of the city, where more space is available and rental prices are lower. It can be said that with the higher fixed cost of the location for consumers, retailers compensate with lower prices and thus improve their competitiveness which was initially violated by the less attractive location. However, smaller EDLP stores with a limited range are also present in more convenient locations, close to residential areas (Popkowski Leszczyc et al., 2004). Examples include Aldi and Lidl opening their new retail formats in the US market - Aldi Local and Lidl Express (Wells, 2017). Store area and product range are reduced, all to be able to open their stores in more attractive locations that will attract consumers, in a busy everyday life, without a car.

It can be considered that these discounters decided on such moves only after they established their position and price image in the specified market. The intertwining of location with other retail marketing elements cannot and should not be avoided, and it is particularly visible in connection with the retail format and price (which is why the term price format is sometimes used as well – e.g. Bell et al., 1998a). Like the examples of Aldi and Lidl, Walmart also tried to adapt its business concept through Walmart Express, solely for the reason to be present in new, more attractive locations. This retail format was not successful, and the reason can be found in the fact that it differed significantly from the original Walmart stores, on which their market position was built. On the other hand, the differences between the usual and new formats of Aldi or Lidl were much smaller. From all the above, it can be concluded that the location has encouraged the emergence of new retail formats, which once again emphasizes its importance in retail. Therefore, it is to be expected that location can be an important factor in creating and managing the retail price image. Although they did not research the location on its own but as part of the convenience of shopping along with working hours, Koschmann and Isaac (2018) did not find a statistically significant impact of the location on the price image of retail formats. Nevertheless, the same authors concluded that when a retailer is opening new stores in new geographical areas, consumers rely on the retailer's price image (can be associated with the retailer's name and brand) rather than its dominant retail format.

4. CONCLUSION

Many retail elements can have a direct or indirect influence on the retail price image. Product range, as the product of retailer, could have one of the major roles since the price is understandable only when it is assigned to the product. However, the increased importance of private labels is evident. They have made significant progress in strengthening their image and it can be expected that today they are almost equal competitors to manufacturer brands in many product categories. Brand products at price promotion are considered to attract a larger consumer base, but private label products at price promotion also ensure the loyalty of consumer-friendly retailers and strengthen interconnectedness. In addition, retailers know the cost structure best and achieve the highest margins on their PL products, so in this aspect, it is easiest for them to manage regular prices and price promotions as an important factor in overall price management, price image, and retailer brand. The in-store design and atmosphere stand out as an important element in the perception of the retail price image. Consumers relatively easily create a certain impression of prices depending on the space in which the products are exposed. A pleasant atmosphere, new and modern decoration may increase the willingness of consumers to pay, but at the same time remind them to consider whether the offered price is good and whether the competitor with a less attractive store offers the same product at a lower price. Retailers need to find the optimal level of the comfortable and attractive store design. As for the service level through the role of staff in grocery retail, it could be less emphasized than in some other retail sectors that are more specialized and consumers need more communication with staff, e.g., buying electronic products or furniture. In this case, consumer communication with staff is usually reduced to the provision of service at the checkout and possibly the return of the product. Certainly, the staff and the speed and comfort of the service provided, affect the overall consumers' satisfaction with the overall service of retailers. In addition, in contemporary society more attention is given to various screens and technologies, and it is possible that the influence of the level of services, primarily staff, has been partially lost. Perhaps a higher level of services as a non-price factor could also be based on modern technology - more scanners to inform about products (e.g. price, origin, usability, etc.) or self-paying cash registers, and as such can be an influential variable on the retail price image. Location will always be an important factor when it comes to physical retail stores.

When it comes to grocery retail, the usual store density is quite high, and convenience is very important for consumers. However, if the store is not within walking distance and consumers must go by car, usually several different retailers are at equal distances and the location itself does not have a key role. It can be expected that location would be more connected with store price format, i.e. convenient/neighbourhood stores are more expensive than large stores as hypermarkets, and thus indirectly affects retail price image. This research tried to provide the foundation for understanding the role of observed non-price factors in the perception of retail price image. Limitations of this research arise from the fact that it included five non-price factors, while there could be other non-price factors as well, e.g. corporate social responsibility as an increasingly important factor in contemporary society. Future research could focus deeper on the papers from the most important databases Web of Science and Scopus. Finally, it is necessary to develop a measurement instrument and conduct comprehensive primary research on consumers, including both price and non-price factors of retail price image.

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