**Stream Number 1: Managing for Peak Performance**

**Competitive Session**

**Full Paper**

**Managing for Peak Performance:** **retailer preference and consumer decision-making**

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**ABSTRACT**

The purpose of this paper is to investigate the order of the consumer’s consideration set formation. The research study focused on the participants’ main concerns in their decision-making, and how they tried to resolve them. This study suggests that decision risk was reduced by the home-improvement consumers forming consideration sets populated in part or in whole by retailer brands as an experiential short-cut. The data demonstrates that trust, perceived risk, involvement and brand are the antecedents’ to this formation. Brands are seen by the home improvement consumer as a bundle of attributes with the ability to deliver problem solving benefits. Brand loyalty is the proxy in the decision process. The use of this proxy as a heuristic reduced the perceived risk.

**Key Words:** managing in changing and complex business environments.

**Background**

The 21st century has seen growing consumerism in the First World. As a result, retailing has developed, and as consumerism has grown the ‘big box’ retailers have emerged. Concurrently the growth of the home improvement market has created a new type of consumer. This consumer is often not a qualified builder but a do-it-yourself (DIY) home-improver. This consumer must be considered in light of what is understood about consumer decision-making. DIY home improvers frequently purchase products with which they have little or no experience (Campbell, 2005; Wolf & McQuitty, 2011). In making their purchases they need to deal with the perceived risk implied in such decisions. They can ameliorate this risk by placing their trust in others (Anderson & Narus, 1990). Risk is also seen as precursor of consumer involvement, which is the time, thought, energy and other resources devoted to the purchase process, and as with trust it can be taken into account at the product or brand level (Choffee & McLeod, 1973). The link between risk reductions and involvement has been defined in the literature as brand loyalty, a major risk reducer (Roselius, 1971). Involvement is also seen as a critical forerunner to brand loyalty (Douglas, 2006). Trust is also a key element of brand loyalty (Bainbridge, 1997; Lau & Lee, 1999; Smith, 2001; Matzler, Grabner-Kräuter, & Bidmon, 2008). Empirical research suggests that consumers have a high level of confidence that businesses will not mislead or cheat them (Sweeney Research, 2011). This level of confidence may explain the expediential growth of private and/or exclusive product brands and big box retailers in many consumer market segments, such as those found in the hardware, food, furniture and electronics trades. A consumer response to burden and complexity of choice is using a consideration set when making their decisions. A consideration set is a cognitive reduction strategy that simplifies retail, product or service decisions by reducing the number of choices. This experiential short-cut is a process which reduces the available options to a limited number of alternatives. Consideration sets are not restricted to product or service brands; consumers use this strategy to reduce the number of available retailers. Lack of consumer experience is particularly evident in the DIY market (Williams, 2004; Campbell, 2005) markets in which home owners strive to enhance the value of the home through personal effort (Wolf & McQuitty, 2011). In Australia this market is projected to grow at an average of 5% per year to 2017 (IBIS World, 2012).

**Research Question**

The order in which items are arranged in the consumer’s consideration set is the focus of this research. This study addresses the question:

*‘In which order do consumers choose; first the retailer and then the product, or first the product and then the retailer, or both simultaneously?’*

To understand consumers’ consideration set formations, we elected to focus on the Australian home improvement segment rather than all consumer market segments is a practical one based on the ability to manage the proposed research and the growth of this market segment driven by the big box retailers (Besley, 2002; Trewartha, 2006). Understanding the decision-making processes of consumers plays a vital role in managing peak performance for managers when developing appropriate marketing mix strategies to sell products and services for marketers, retailers’ manufacturers, and managers. The research described in this paper is designed to explore these decision-making processes in the context of consumers of home improvement products. The aim is to understand the order in which home improvement consumers’ consideration sets are organized. One possibility is for the consumer to organize their set according to retailer brands; that is, by the name, term, design, symbol, or any other feature which identifies one retailer as distinct from another. A second possibility is for the consumer to organize their set according to product brands; that is, the name, term, design, symbol, or any other feature that identifies one manufacturer’s or merchant’s goods or services as distinct from another’s. A third possibility is a combination of both of these two.

**Research design and methodology**

This study used a qualitative method of data collection, namely focus groups (McMurray, 2006) and expert panels. These methods were chosen in the belief that group discussion would uncover and explain issues and reactions not essentially expected or able to surface during quantitative surveys (Charmaz, 1983; McMurray, 2006). The focus group discussions sought rich and insightful information and data while the expert panel provided quality feedback. Examining issues in-depth, rather than more broadly as would be the case in a quantitative survey, was considered to be a critical component of this exploratory research (Neuman, 2006) and thus the work will act as a foundation stone for further research on this topic. The focus group sessions were underpinned by a grounded theory approach that affords a stage for developing the foundation of a theory (Charmaz, 1983). To reduce the risk of a critical issue being overlooked in the focus groups, data from two expert panels – one representing retailers, the other manufacturers – was used to validate the results obtained from the focus group discussions. The two expert panels’ views were aggregated using the Delphi method (Centage 2000). The expert panels served to provide depth and an expert review of the derived theory.

The ex-post facto research design used in this study builds on previously conducted research into consideration sets. This study specifically focuses on the home-improvement consumers using a grounded methodology in focus groups and the Delphi method in an expert panel to collect data for qualitative research. Studies in consumer research have been criticized for a lack of focus on the context of consumption (Mick & Fournier, 1998). Key reasons for not using an experimental design are that it is impractical in this case, prohibitively expensive and it could be unethical (Cohen, et al., 2000; Terre Blanche, et al., 2006). With this in mind the ex-post facto research design does not seek to control variable factors; rather it reflects that the research is undertaken after the event.

The chosen research method is one of many that might have been employed to explore the concept of retailer preference. This research only seeks to investigate the preferences of consumers purchasing home improvement products. The focus on the Australian home improvement sector rather than all consumers was a pragmatic decision based on the ability to manage the proposed research. Nevertheless, the home improvement sector is a significant part of the retail market in Australia. This research is not a national survey. Although it is limited to focus groups formed in regional Victoria, it is supported by expert panels drawn from leading suppliers; that is, manufacturers and retailers in Australia.

The review of the literature on consumer decision-making suggests that consumers faced with complex and incomplete information will satisfice. Therefore, they are not rational decision-makers; they make decisions based on selective information, and take short cuts such as reducing available options to a limited number. The influences of risk, involvement and trust on the heuristic of the consideration set are varied. There is a general agreement that the decision-maker needs to mitigate perceived risk (Sherif, 1935; Earl & Potts, 2004). This need to reduce risk requires the consumer to display trust. This trust can be placed by the consumer in a brand, and the degree of trust is reflected in brand loyalty. Contradictions in the literature regarding the construct and operation of involvement mask the exact nature and intensity of involvement’s influence on decision-making. However, the recursive nature of purchasing is determined when a person decides they need something, rather than a rational decision-making process a heuristic is formed. This process is impacted by the level of involvement and the entwined risk–trust relationship, and it is resolved by brand heuristics. Managers must recognize that brand loyalty is a result of the decision-making trap of the halo effect and as such the process recommences. Nonetheless, understanding which brand dominates is important for marketers, retailers and theorists. It is unclear in which order DIY customers who are potential customers of big box retailers form a retailer preference or product preference. The order can be a determinant of who, manufacturer or retailer, exerts the more substantive power over the consumer.

In order to recognize concepts in the data, key questions posed to focus groups formed the starting point for the analysis. These questions were designed to develop sensitivity about context and interactions between themes. This thematic patterning emphasized the salient ideas which home-improvements consumers have in common. Central to this analysis was the ability to uncover the themes with which to explain the emergent concepts. This analysis then helped to define these concepts. The extracted concepts were then tested, developed and refined in light of all the subsequent group interview data. These concepts then formed the basis of the expert panel review.

**Focus Group Analysis**

Focus groups sought to uncover the feelings associated with purchasing products. The initial discussions centered on what decision support the group members needed. The purchase of home improvement products presents a challenge to these respondents. It is apparent that there are many things to know, and there is uncertainty regarding how the purchased item will perform and look. Decision support needs to be interactive in order to facilitate and inform a decision-making activity that helps identify and solve problems. A consumer’s level of uncertainty regarding the outcome of a purchase decision has its anxiety reduced by the recommendations of the retailer. Product brands may play an important role in the store, yet the focus groups indicated that commitment to individual product brands is not significant. Rather, it is apparent that there is a reliance on the retailer to provide advice and support before and after the sale. This attitude requires the retailer to provide the consumer with the knowledge they need so that they can make decisions more efficiently, offering a time-saving solution in a more effective way and ultimately leading to reduced risk of an unwanted outcome to their home. The importance of the purchase intermediary, the retailer, was emphasized in the discussions, and the key elements of risk and trust, were identified. Trust was in the ability of the retailer to offer viable options, to provide advice and deliver aftersales support. The discussions made it clear that an important element of the respondents’ lives is their home. It is presented as their most important asset and the discussions reflected the notion that the home is a manifestation of who they, the home-improvement consumers, are. As a consequence, all goods and services purchased for the home were deemed to be important and, therefore, home-improvement consumers are involved in the decision-making process. However, with time constraints and little experience, choosing retailers made the process seem less of an onerous task to the respondents because the retailer could at least in part take on some of the decision-making process by selecting a range of items for the consumer to choose from. Before and after sales service were pointed to in the data as one of the retailers’ key advantages, as is the ability to trust the retailer to reduce risk. This is reinforced by the view held by home-improvement consumers that the retailer has as much to lose as the consumer if what they offer is not right or fit for the purpose. There was a similarity between respondents about the circumstances of their purchase: this was that purchases were urgent and consumers had little time for in-depth research. A store’s provision of service, selection, advice and value – all of which support the decision process and develop trust – fostered a relationship that allowed the respondents to reduce the cognitive burden of home improvement purchasing. The quality of the in-store service and products offered by the retailer supported the respondents’ behaviors. Availability of staff was important while the buying decision was being made: respondents wanted knowledgeable assistance that was available when they needed it. Group members placed a high value on accurate information and wanted to be served by employees who knew the product inside and out. Customers wanted product-savvy sales people, who were also friendly and courteous. Good value was stressed as being important in the respondents’ discussions; however price was only one component of the bigger picture of value that included the service, information and follow-up. Convenience was also important; merchandise needed to be well organized and displayed and easy to find. Once a decision had been made, respondents wanted to complete the transaction and be on their way as quickly as possible. Service was important to the respondents. That is, they wanted a retailer that was friendly, helpful and satisfied the need that brought them into the store. This was conceptualized by respondents in the form of retailer brand and what it stands for. They chose a particular retailer because the selection of merchandise was good and reliable. The store offered good (perceived) value in its selection and pricing. The product or service decision was made in the store based on retailers’ service and their related advice, as well as trust that the organization would act honestly. The reduction of the consumer’s perceived risk was raised as the major motivator for wanting the imprimatur of the store through its advice, price points and limited product offering. This form of retailer endorsement was particularly important when respondents lacked experience or knowledge about a particular product. Store display, design and layout, presentation of products and the ambience of the store were seen as important elements of the decision-making process. The respondents indicated that the purchases were as important to themselves and the people around them as was where they purchased, to the extent that that retailer could be trusted to provide advice and after-sales support. Respondents associated the perceived qualities of the retailer such as trustworthiness, knowledgeable advice and the retailer’s imprimatur to the products offered by the retailer, enabling them to apply those values in their decision-making about a particular good or service to the brands offered by the retailer. The consumer brand relationship was between the retailer brand and the consumer rather than between a product brand and the consumer. The retailer’s product offering provided a reduced set of alternatives, thereby reducing the time, information processing, exertion and complexity of the decision-making. The identified need to purchase required immediate satisfaction, and the respondents therefore used information from the retailer to choose from amongst its product offerings. Based on these responses, a set of categories were established to facilitate coding of all the group data. Group members did not appear to focus on product brands; rather they discussed the support from the retailer brand in making a decision. Service was important to the respondents. That is, they wanted a retailer that was friendly, helpful and satisfied the need that brought them into the store. This was conceptualized by respondents in the form of retailer brand and what it stands for. They chose a particular retailer because the selection of merchandise was good and reliable. The store offered good (perceived) value in its selection and pricing. Consistent customer service allows the customer to trust the company, knowing that they will receive good service not just sometimes but every time. Data analysis from the focus groups in this study showed that the participating home improvement consumers formed a retailer preference; that is a consideration set of retailers. In doing this they articulated a desire to reduce the risk inherent in their purchase decision. Risk was perceived in the context of a specific potential negative impact on the consumers’ primary asset, their home, not by risk in a general sense, or the probability of a negative outcome. Further, the data in this study indicated that when compared with retailer brands, product brands lacked a recognizable added value, such as application advice and post-purchase dissonance resolution. Group members suggested that retailers have created brand image by creating brand equity, and by extension trust, in their own stores. Furthermore they transferred that imagery to their products through the services they provide.

**Expert Panel Analysis**

The previous discussion reviewed the larger body of data from the focus group interviews. This data indicated the formation of retailer preference, a consequence of information / experience deprivation and the need to reduce perceived risk. Risk reduction was achieved by placing trust in the retailer’s brand to deliver what the brand represented to the respondent. Given this, it is now important to review the discussions of the expert panels made up of retailer and manufacturer participants. These discussions led to a consensus which coincided with the proposition espoused by the home-improvement respondents. Three key questions were put to each of the two expert panels, these questions were 1) what do your customers decide on first: the store they buy from or the product brand they buy? 2) When do your customers form a set of product brands that they will choose from? 3) How and why do your customers choose the order of their preference? The retailers felt that information provided by them plays an important role in the decision-making process. They referred to a recommendation-based heuristic in which the decision maker obtains recommendations from retailers for the purpose of reducing the uncertainty and amount of information that must be processed to make a decision. The consequences of these recommendations, they suggest, is that their customers trust their knowledge and advice. This was said to be particularly important to those of their customers who lacked the resources to make a fully informed decision: “customers might decide on some product brands whilst they make a list of possible retailers, however retailers are key in their decision-making, they expect the retailers to assist in the decision, so I think they decide on the retailers first”. The retailers indicated that the inferences people drew were contingent upon their trust of the information provided by the retailer. Thus, recommendation criteria used by consumers in product decisions or choice drivers played an important part in determining who and what was included in their consideration set. The manufacturers proposed that brand and retailers occupied the consumers’ initial decision-making set. They pointed to brand familiarity, of both product and retailer, as key in the decision-making process: “they have product brands in mind and choose retailers based on their confidence that they can provide all the services”. They indicated knowledgeable and informed sales personnel were important for retailers: “it is important to consumers to have good sales support”. Further they noted that prior positive shopping experience was especially important, demonstrated in the satisfaction consumers derived from shopping in a particular store: “if they have a bad experience they tend not to go back to that store”. Price was an important selection criterion for including the retailer in their decision set, but this finding needs to be interpreted with the context in mind. For example, the importance of pricing to the consumer depends on their overall retailer preference, which in turn rests on perceptions of trustworthiness and the availability of knowledgeable salespeople: “price is important, if they can’t trust the retailer to be competitive then that will haunt the retailer in the future”. As consumers moved from the periphery to the core of the home-improvement purchase, price became less important. Both groups also held that these decisions about whom they chose first – retailer or product – focused on reducing risk to their home. The information provided by the expert panels showed that consumers aimed to reduce risk by choosing a brand, in this case the retailer’s brand, which they could trust for support before, during and after the decision was made. This information supported the notion of a retailer preference amongst home-improvement consumers. The expert panels agreed that home-improvement consumers use retailer brands to help them decide which product they would purchase. By doing so, they aimed to reduce or mitigate the risk associated with purchasing goods. In seeking service from the retailer when choosing the products for purchase, they trusted the retail brand more than the product brand. The expert panels agreed that the retail behavior of home-improvement consumers, in particular their focus on the attributes of the store, indicated their preference was for the store rather than for the product brand. The panels agreed that retailer preference depended on a store’s attributes, including merchandising, atmosphere, in-store service, accessibility, reputation, promotion, facilities and post-transaction service. Together these attributes supported the need by the home-improvement consumer to mitigate the risk to their home and thus form a retailer preference.

**Discussion**

The data was collected from focus groups and expert panels. The purpose of the data was to shed light on retailer preference and its causes. Decision-making is cognitively driven with the consumer trying to solve a problem, minimize risk and ultimately satisfy their needs. To aid in this process they scan for problem-solving support. The home-improvement consumer searches for brands that deliver benefits, principally the minimization of the likelihood adverse outcomes for their home and minimization of magnitude of any risk. They see brands as a bundle of attributes with the potential to deliver problem-solving benefits to satisfy their need. In order to satisfy that need the consumer must select specific items and specific outlets. They can do this: 1) simultaneously; 2) item first, retailer second; or 3) retailer first, item second. The data gathered in this study supports the third way, which is, that the retailer is chosen first. The concepts of involvement, perceived risk, trust and brand suggest that brand loyalty, in this case to the retailer brand, is the proxy in the decision-making process for home-improvement consumers. This use of a proxy, the retailer brand, as a heuristic reduced the perceived risk taken by the home improvement consumers. Interestingly, risk in a general sense was not the paramount driver; rather, it was risk to their home that was the primary driver. Consumers abrogated, at least in part, the final decision of which product to buy by choosing from amongst the options presented by the retailer, and by extension accepting the retailer’s imprimatur on the final choice set. Retailer branding is a type of shortcut for the home improvement consumer, embodying the need to reduce the risk of adverse effects to their home. These emotional and logical thought processes first reduced the options to retailers. Focus groups indicated that the product or service brand was relevant, but only in terms of building retailer brand rather than product brand. This pragmatic dimension integrates elements of emotion and logic: a general thought process is incorporated into the personal experience of a brand to motivate reassurance and ease for the consumers. The familiarity that home improvement consumers have with the retailer is important for their awareness and loyalty for a particular brand. It reduces the complexity of their choice, helps them to commit to a particular product and/or service, minimizes risk, and reinforces trust. Home-improvement consumers trust the retailer to deliver what they want even when they are not sure that an unfamiliar product or service will do so. The concepts of involvement, perceived risk, trust, and brand are the basic building blocks of this analysis. The theme that has evolved is a recursive loop between the recognition of need and the choice/purchase. The greater the perceived risk, the greater the need for the building blocks of involvement, trust, and brand to form a heuristic of retailer preference to facilitate the decision process. Brand loyalty is the process that connects these concepts (See Figure 1). The notion of retailer preference describes a consumer that wishes to build a relationship with a brand through which they can abrogate their decision-making responsibility, which is in essence to make a choice. A positive interaction by the DIYer with a brand is crucial to brand loyalty. The sensitivity, which is the strength of the emotional reaction, in the belief of that interaction is the basis of the retailer preference. As consumers are not rational and do not make purchase decisions that maximize utility, rather seek to reduce risk in the decision, consumers in the home-improvement prefer simplifying risk-reduction strategy, by accepting the endorsement of the retailer brand. The home-improvement consumers’ trust is only as a reduction of their perceived risk which is signaled in the prior experience of the brand. Risk is conceptualized for the DIYer as a multiplicative combination of two components, uncertainty and importance. The DIYers consumers seek to reduce perceived risk, primarily on the uncertainty component of that risk. To that end if the retailer brand reduces the uncertainty in the risk, rather than the product brand then Retailer Preference is formed and the retailer brand is chosen before the product brand.

Insert Figure 1 about here

The data in this study demonstrates that trust, perceived risk, involvement and brand are the antecedents to product or retailer brand selection. Trust is placed in the service provider, the retailer brand. Thus it appears that consumers know a brand, and this brand defines the experience of purchase in terms of service attributes and functional consequences of the service encounter. Trust in the brand arises out of predictability, and service acts as a foundation on which trust is built between consumer and brand. Home-improvement buyers’ decisions are based on criteria other than the product brand, such as the retailer’s advice and imprimatur. Brands play an important role at the retail point of sale. Yet commitment to individual product brands is growing weaker. Product brands have values for home-improvement such as quality, durability, reliability, and better materials. However, the underlying issue indicated by the data is that product brands lack a recognizable added value whereas retailer brands do not. Retailer brands are able to provide added value in the form of advice and post-purchase dissonance resolution. This idea is noted by the group members as the notion that retailers have created brand image by creating brand equity, and by extension trust, in their own stores. They are able to transfer that imagery to the products and/or service offered by the retailer through the services they provide, such as advice and warranty support, they are thus able reduce the perceived risk to consumers’ homes.

**Conclusion**

This paper presented the data collected from focus groups and expert panels. The purpose of the data was to shed light on retailer preference and its causes. Decision-making is cognitively driven with the consumer trying to solve a problem, minimize risk and ultimately satisfy their needs. To aid in this process they scan for problem-solving support. The home-improvement consumer searches for brands that deliver benefits, principally the minimization of the likelihood adverse outcomes for their home and minimization of magnitude of any risk. They see brands as a bundle of attributes with the potential to deliver problem-solving benefits to satisfy their need. In order to satisfy that need the consumer must select specific items and specific outlets. They can do this: 1) simultaneously; 2) item first, retailer second; or 3) retailer first, item second. The data gathered in this study supports the third way, which is, that the retailer is chosen first. The concepts of involvement, perceived risk, trust and brand suggest that brand loyalty, in this case to the retailer brand, is the proxy in the decision-making process for home-improvement consumers. This use of a proxy, the retailer brand, as a heuristic reduced the perceived risk taken by the home improvement consumers. Interestingly, risk in a general sense was not the paramount driver; rather, it was risk to their home that was the primary driver. Consumers abrogated, at least in part, the final decision of which product to buy by choosing from amongst the options presented by the retailer, and by extension accepting the retailer’s imprimatur on the final choice set. Retailer branding is a type of shortcut for the home improvement consumer, embodying the need to reduce the risk of adverse effects to their home. These emotional and logical thought processes first reduced the options to retailers. Focus groups indicated that the product or service brand was relevant, but only in terms of building retailer brand rather than product brand. This pragmatic dimension integrates elements of emotion and logic: a general thought process is incorporated into the personal experience of a brand to motivate reassurance and ease for the consumers. The data in this study demonstrates that trust, perceived risk, involvement and brand are the antecedents to product or retailer brand selection.

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**Attachment 1**







**Loyaty**

**Retailer Preference**

**Brand**

**Loyalty**

**Bra**

**Brand**

**Loyalty**

**Loy**

**Figure 4.2**

**Figure 1: Retailer preferences for decision-making in home improvement**

**Brand**

**Brand**

**Involvement**

**aty**

**Trust**

Source: developed from the data for this thesis