How store attributes impact shoppers' loyalty in emerging countries: An investigation in the Indian retail sector

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ARTICLE INFO

ABSTRACT

This paper takes a first step towards verifying a loyalty building model in the Indian retail sector. The results show that the intensity of some core loyalty model paths in developed countries, are confirmed within the Indian retail sector. One such path refers to the relationship between store loyalty and its main driver, customer satisfaction. Satisfaction comes mainly from the store environment and the perceived value according to customers, which is influenced by the retailers' product assortment decisions. Surprisingly, promotions don't have an impact on the perceived value, while the perceived value has only a small and negative impact on store loyalty.

1. Introduction

Western retailers in developed countries are increasingly facing pricing pressure, which is decreasing their margins and reducing customers' loyalty. Hence, these retailers are looking for new ways of attracting shoppers to the store, increasing the number of purchases they make, and keeping them loyal to the store. This goal is particularly difficult to reach because of the parallel evolution of demand and the development of the e-commerce channel. Building intangible marketing resources has been identified as a possible means by which retailers can face the growing uncertainty in this broader scenario and address the challenges emerging from it. Nowadays, reinforcing the resources related to customer relationship management is considered crucial to gaining the needed flexibility for responding to the continuously changing retail context.

Marketing literature has shown that loyal customers are less price sensitive and therefore more willing to pay a premium price, more likely to purchase more frequently, more willing to try the company's other product offerings, and to bring new customers to the firm (e.g. Reichheld and Sasser, 1990; Reichheld and Teal, 1996). Customer loyalty has been linked to the company's profitability (Reichheld and Sasser, 1990), particularly longer term one (Agustin and Singh 2005; Dewani et al., 2016) as this has emerged to be positively associated with customer revenue and customer retention, both of which drive customer lifetime value (CLV; Zhang and Wedel, 2009). In the western retail context, there are many examples of loyalty-based relationships in which customers have positive effects on firms' performances. The well-known UK-based retailer Tesco, for instance, has been able to build a strong, long-term relationship with its customers. This has allowed the company to develop a successful store brand. Tesco is currently one of the retail chains with the highest private label penetration. Further, leveraging its customers' loyalty, the firm has extended its offer range to include financial services, insurance products, and tour packages.

The main objective of retailers like Tesco is to deliver value to their customers and build a long-term and mutually beneficial relationship with them (e.g. Dick and Basu, 1994). Owing to its extensive experience in the UK, the company succeeded in leveraging customers' loyalty in all the 12 countries in which it operates. In the US, companies annually spend about $50 billion on loyalty programs (McKinsey and Company, 2014). It is estimated that U.S. consumers may enroll in up to 29 loyalty programs, but 54% of memberships are inactive and 28% of customers have left a loyalty program before redeeming a single reward (COLLOQUY Loyalty Census, 2017). So, while customers overall might recognize the potential benefits of loyalty programs, there is a clear lack of engagement with the current value propositions, which suggests that companies should build loyalty on more and different actions than just developing a loyalty program.

At the same time, western retailers look for new ways of developing their businesses beyond the modern countries where growth potential is limited. The geographic shifts in customer spending in developing countries has indeed prompted changes in the strategic priorities of many retailers (Diallo and Cliquet, 2016) facing more and more

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challenges in their traditional competitive landscapes. Rising incomes, improved infrastructure, institutional changes and fewer tariffs do make emerging markets more accessible and attractive (Cao and Pederzoli, 2013).

In the developing world, the Indian retail market is a very dynamic sector which has achieved a volume corresponding to 10% of India's GDP, and offers employment to 8% of its population (www.ibef.org). It is one of the fastest growing retail markets in the world with an estimated size of USD 600 billion in 2015, projected to grow to USD 1.3 trillion by 2020 (www.ibef.org). At the beginning of 2017, India replaced China as the most promising retail market in the world (ATKearney report 2017), thanks to the relaxed FDI rules, the recent efforts to boot cashless payments, and the reform of their indirect taxation by introducing a nationwide goods and services tax. Therefore, it is not surprising that several Western retail players look at this market as a potential area of internationalizing their business.

Burt and Mavrommatis (2006) stress that retailers who internationalize mostly attempt to transfer successful domestic offers to a foreign environment. This would imply that retail managers seeking to enter the Indian market will prioritize building strong loyalty based-relationships with Indian customers. Their assumption is coherent with the results of a study conducted in four cities in Northern India which concluded that Indian customers prefer to establish a stable rapport with retailers, as for them, most of the interactions are oriented towards long term relationships (Khare et al., 2010). This, in fact, is the path selected by the above-mentioned retailer, Tesco, that replicates its loyalty building strategy by means of a loyalty card (Clubcard) in the foreign countries to which it expands. This loyalty scheme's success can, from the customers' point of view be ascribed to its usage simplicity: customers just allow the cashier to swipe their card, upon which they are allocated points and special offers based on their taste as indicated by their purchases. This is enabled by a very complex data analysis system that Tesco outsourced to what at that time was one of its external subsidiaries, Dunnhumby. Tesco's internationalization process has been driven by Dunnhumby, who replicated the original model by using information gained from club card data as leverage in entering foreign countries. According to Franchising India (2017), brands such as Korres, Migato, Evisu, Pasta Mania, Lush, Melting Pot, Yogurt Lab, and Monnalisa are expected to enter the Indian market in the next few months, following the formulas that they have established and that work for them elsewhere, in the same way as big retail brands like Ikea, Uniqlo, GAP, Massimo Dutti and H & M have replicated their own formulas to enter this market recently.

In spite of many success stories, rapid retail internationalization into emerging countries does not always lead to success (Diallo and Cliquet, 2016). International retailers entering emerging markets run into strong competition from local operators who often have store management experience (Swoboda et al., 2012) and can adapt their retail offer better to the local context (Diallo and Cliquet, 2016). In Western retail markets the balance between standardization and adaptation is considered to be a key factor in retail offers (Kaufmann and Eroglu, 1999; Cox and Mason, 2007). In emerging markets this balance is particularly critical and complicated because of their cultural difference from Western nations (Dholakia et al., 2012). It is therefore important to understand the key challenges in the Indian retail sector, as well as the key drivers of loyalty in the Indian market.

One of the most critical phenomena currently characterizing the Indian retail market is its exponentially developing complexity, which has major effects on the behavior of economic actors. Retailing in India faces severe competitive pressures due to evolving structures in certain sectors that are shifting from a traditional to a contemporary landscape in a relatively short period of time. At present the formal sector is dominated by the informal sector which comprises 92%. The rapidly growing formal sector currently has an 8% share, which is expected to grow significantly in the next few years.

This paper's objective is to present and test a loyalty-building model in the Indian retail sector to provide directions to retailers who are keen to venture into this interesting, but complex, landscape. Up to now research on store loyalty building has considered only a narrow set of tools that retail managers can leverage in order to foster customer relationships. We want to overcome this main limitation by considering a wider range of tools. Promotions and loyalty schemes are among the most investigated tools (e.g. Zhang and Wedel, 2009; Ramanathan and Dhar, 2010; Venkatesan and Farris, 2012), although their effects on relationship development are not immediately evident (e.g. Noble and Philips, 2004), are difficult to establish (e.g. Hart et al., 1999; Uncles et al., 2003), and not always positive (e.g. Ailawadi and Keller, 2004; Bucklin and Lattin, 1991). This is true, not only for western countries; for example, in China two thirds (66%) of the consumers currently belong to a membership program, 25% belong to three or more such programs, and 10% have had such memberships, but then allowed them to lapse (LoyaltyOne research, 2016). In a retailing context, other levers can also contribute to loyalty building, including customers' relationships with salespersons, and the store environment (Guenzi et al., 2009). To date, very few studies have empirically tested comprehensive models of customer loyalty (Too et al., 2001).

The aim of our study is therefore twofold, namely (1) to investigate the main drivers of store loyalty in the Indian market, and (2) to achieve this by developing a comprehensive model of customers' loyalty. In doing so we will consider the possible range of levers available to the retail companies aiming to enter the Indian market in the near future.

Our model is rooted in the extant literature and relies on empirical findings of studies related to store loyalty. We develop and analyze the model in two main stages. First, we focus on the two main antecedents (satisfaction and value for money), and we examine a core model (Stage 1) centered on store loyalty, which was widely accepted in the literature. Second, we broaden the perspective currently presented in the literature by simultaneously considering different store-level levers to gain further theoretical and managerial insights. This allows us to test an extended model (Stage 2) and thus to contribute to closing the research gap identified above.

In the following pages we present our two-stage model and the results of our study that was aimed at testing it in the Indian market. The hypotheses identified in our model are derived from existing literature that emanates largely from studies conducted in Western countries. Our interest, therefore, is to investigate whether these findings are confirmed in the Indian market, and to ascertain which of the several drivers of store loyalty identified in the model are most relevant to Indian shoppers.

1.1. Stage 1: The core variables

1.1.1. Store loyalty, satisfaction, and value for money

The goal of this paper is to test a two-stage model that is centered on store loyalty in the Indian retail context. In this section, we focus on a widely recognized core theoretical model that links store loyalty to its main antecedents, namely satisfaction and value for money.

Loyalty, at the service level, is defined as "the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition towards the provider, and considers using only this provider when a need for this service arises" (Gremler and Brown, 1996; 173). This definition can easily be transferred to retailing as a specific service context.

Marketing scholars widely consider loyalty to be a combination (e.g. Day, 1969; Dick and Basu, 1994) of attitudinal and behavioral factors, i.e. a combination of loyalty intentions and behavioral loyalty. In this paper, we focus on loyalty intentions which are defined as customers' intention to engage in a diverse set of behaviors that will signal their motivation to maintain a durable relationship with the store. Loyalty intention, thus will be exhibited (e.g.) in recommending the store to a friend, regularly returning to the store, purchasing more from it, and