



Customers' relationship with their grocery store: Direct and moderating effects from store format and loyalty programs



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ABSTRACT

This paper aims: (i) to characterize the priorities designed and implemented by grocery retailers concerning relationship marketing with customers; (ii) to analyse customers' relationship with their grocery store and to evaluate store format and loyalty programs as key determinants of this relationship. Exploratory interviews were conducted with grocery store managers. Two independent samples of Portuguese customers answered a questionnaire and collected data were analysed using Structural Equation Modelling. Main results suggest that supermarkets lead to higher levels of customers' trust (directly) and customers' loyalty (indirectly). Furthermore, the positive effect of customers' satisfaction on customers' loyalty is higher for members of grocery store loyalty programs.

1. Introduction

Retailers of food and other fast-moving consumer goods represent the largest retailers around the world, both in number (52.8% and 50.4% of all Top 250 retailers, in 2013 and 2014, respectively) and in size of the companies (67.5% and 66.7% of Top 250 retail revenue, in 2013 and 2014, respectively) (Deloitte, 2015, 2016). Nonetheless, a market without growth requires from companies the use of innovative strategies to keep current customers and to attract new ones.

Relationship marketing and loyalty programs are key strategies for companies facing increasing competition (Beck et al., 2015). Relationship marketing is an approach to marketing that focuses on the development and maintenance of long-term relationships with consumers, in contrast with the transactional exchanges (Gilaninia et al., 2011). Loyalty programs are business practices more and more pursued by companies in order to enhance customer loyalty (Kumar, 2005; Meyer-Waarden, 2007; Meyer-Waarden and Benavent, 2006). Furthermore, store format decision is a powerful strategic tool for retailers to influence consumers (Gauri, 2013; Gauri et al., 2008).

In the current slow pace of the world economy, consumers have decreased their purchases and retail sales have been affected. For instance, according to a report by Deloitte (2015), nearly one-quarter of the Top 250's European retailers and North American retailers experienced declining retail revenue in 2013 and, for both regions, top-line revenue grew at the slowest pace since 2009. Indeed, the search for a

strong relationship with customers is an important way of business in the highly competitive retail sector, with increasingly demanding customers. However, it is a difficult task for grocery retailers to maintain and build store loyalty, because of the various store formats available to consumers (Nielsen, 2015a).

Although large supermarkets and hypermarkets constitute important players, smaller formats are growing in some categories and have a significant share in others (Nielsen, 2015a). The modern store should meet the lifestyle needs of consumers wishing to buy grocery products for the next few days, rather than shopping at large hypermarkets for the next few weeks (Watkins, 2014).

Moreover, consumers spend time looking for the grocery store that offers more advantages in a certain product, instead of making all their choices in the same store. The current economic crisis has created quite rational consumers, aware of the need to save money, searching for better offers, which leads to a possible decline in satisfaction and/or trust and, also, to the temptation of breaking the relationship with the current grocery store.

In view of these significant changes from both retailer and consumer sides, it is of utmost importance to understand if these factors – loyalty programs and store format – can positively influence the long-term relationship between customers and their grocery store.

Therefore, and in order to provide relevant theoretical and practical contributions to relationship marketing in the grocery retail sector, this paper aims: (i) to characterize the priorities designed and implemented

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by retailers concerning relationship marketing with their customers (ii) to analyse the customer relationship with their main grocery store and to evaluate store format and loyalty programs as key determinants of this relationship. In particular, it aims at characterizing the consumers' level of satisfaction, trust and loyalty to their grocery store, as well as to analyse the potential impact of store format and loyalty programs.

Previous studies revealed a complex relationship between customer satisfaction and customer loyalty. In addition, moderating roles for consumer characteristics (Henrique and Matos, 2015; Homburg and Giering, 2001; Mittal and Kamakura, 2001; Ndubisi, 2006; Seiders et al., 2005), consumer ability to elaborate upon the brand choice (Bloemer and Kasper, 1995) and product involvement (Suh and Yi, 2006), were also evidenced. Despite these efforts, no attempt has been made to study the potential moderator effect of store format and loyalty programs in such complex relationship.

The current paper fills this gap by presenting competing models for relating store format and loyalty programs with the key constructs of relationship marketing. The different roles (antecedent *versus* moderator) of store format and loyalty programs' membership in the relationship between consumers and their grocery store (measured by satisfaction, trust and loyalty) are tested and compared.

2. Theoretical framework

2.1. Relationship marketing with customers and its key constructs

Since the 90s, the highlight given by academics and marketers to the concept of relationship marketing was clear (Christopher et al., 1994; Hennig-Thurau and Hansen, 2000), driven by an environment characterized by excess of productive capacity, increased competition, rapid technological advancement and high concern for the quality (Berry, 1995; Sheth and Parvatiyar, 1995).

Relationship marketing is an approach to marketing that focuses on the development and maintenance of long-term relationships with consumers, in contrast with the transactional exchanges (Gilaninia et al., 2011). Sharifi and Esfidani (2014) indicate that relationship marketing reduces cognitive dissonance by the consumer in the post-purchase stage and, thereby, increases customer satisfaction and loyalty, with a mediating role of trust.

Overall, several financial and marketing benefits for companies that inspire managers to retain loyalty of their customer can be listed, namely:

- Loyal customers are more likely to expand their purchases within the range of products or services of the company (Grayson and Amber, 1999);
- Loyal customers allow a continuous flow of profit, reduce marketing operating costs, increase the brand or product reference and tend to be immune to the promotional efforts of competitors (Reichheld and Teal, 2001);
- Expenses involved in gaining a new customer are much higher than those involved in the maintenance of an existing one (Pfeifer, 2005; Reichheld and Sasser, 1990);
- A current customer retained is more valuable than a new customer recruited (Nunes and Dréze, 2006).

Indeed, customer's loyalty cannot be underestimated by managers (Reinartz and Kumar, 2000). Therefore, customer loyalty is considered as a key factor to measure the effectiveness of relationship marketing (Lawson-Body, 2000; Meyer-Waarden and Benavent, 2006, 2008, 2009; O'Loughlin and Szmigin, 2006a, 2006b).

In addition, there is a certain consensus that building customer loyalty as an ultimate goal of relationship marketing is only possible by means of key variables such as satisfaction (Oliver, 1997, 1999; Selnes, 1998) and trust (Moorman et al., 1992; Morgan and Hunt, 1994; Selnes, 1998).

Thus, based on relationship marketing studies, it is widely accepted in the literature that loyalty is the desirable end-result of the long-term relationship with the customer (Oliver, 1997; Reinartz and Kumar, 2000), trust is an antecedent of loyalty (e.g., Bove and Mitzzifiris, 2007; Garbarino and Johnson, 1999; Morgan and Hunt, 1994) and satisfaction has a key role in building trust and loyalty relationships (e.g., Bove and Mitzzifiris, 2007; Davis-Sramek et al., 2009; Garbarino and Johnson, 1999; Shabbir et al., 2007).

From the existing literature, it is possible to conclude that these three theoretical constructs – satisfaction, trust and loyalty – are the key factors in long term relationships. Therefore, they were chosen to incorporate the competing models under analysis.

2.1.1. Customer satisfaction

Customer satisfaction can be defined as a subjective evaluation, performed after a specific purchase decision (Churchill and Surprenant, 1982; Oliver, 1980, 1993), that the chosen alternative corresponded to, or exceeded, the expectations (Meuter et al., 2000; Mohr and Bitner, 1995). In this sense, customers evaluate their level of satisfaction using different expectations of reference, such as the ideal, the expectable, the possible, the desired or what it should be (Martenson, 2007).

According to Gustafsson et al. (2005) customer satisfaction is a customer's overall evaluation of performance for a current offering. However, some authors (e.g., Anderson et al., 1994; Bolton, 1998; Brunner et al., 2008) stated that consumer satisfaction should be considered as a judgement based on cumulative satisfaction (i.e., based on the past and present experiences of customers regarding the performance of the company's products or services) rather than as the result of a post-purchase evaluative judgment in a specific transaction.

Oliver (1997) stated that loyalty is the end result of customer satisfaction. Conceptualizing satisfaction with a judgement about a single specific transaction is too restrictive when it regards the relationship between customer satisfaction and loyalty (Fornell et al., 1996; Homburg and Giering, 2001). Furthermore, it was found that cumulative satisfaction is a better predictor of loyalty, rather than the satisfaction obtained with a specific transaction (Anderson et al., 1994; Yang and Peterson, 2004).

Several previous studies revealed the existence of a positive relationship between customer satisfaction and loyalty (e.g., Hallowell, 1996; Homburg and Giering, 2001; Ming-Tien et al., 2010; Prasad and Aryasri, 2008; Wallace et al., 2004). Others authors showed the following positive effects of customer satisfaction: customer retention (Bolton and Lemon, 1999; Rust and Zahorik, 1993), repurchase intention (Bolton and Lemon, 1999; Taylor and Baker, 1994), repurchase behaviour (Anderson and Sullivan, 1993; Cronin et al., 2000; Mittal and Kamakura, 2001), positive references (word-of-mouth) to potential customers (Bitner, 1990; Grönroos, 2004; Palmatier et al., 2006; Swan and Oliver, 1989).

2.1.2. Customer trust

Consumer trust means that customers believe their long term interest will be served by the salesperson (Crosby et al., 1990). According to Morgan and Hunt (1994, p. 23) trust exists "when one party has confidence in an exchange partner's reliability and integrity". In line with Doney and Cannon (1997) and Rempel et al. (2001), trust derives from a mechanism wherein characteristics, motives and intentions are attributed to exchange partners, with the evaluation of their potential being facilitated by the assumption that their behaviour is predictable and corresponds to what has been promised.

According to Ganesan (1994) trust plays a key role in determining the long-term orientation of both retail buyers and their vendors. Moreover, Black (2008), Yaqub (2010); Yaqub et al. (2010) stated that the degree of mutual trust is crucial to the success and failure on inter-organizational relationships. Harris and Goode (2004); Hong and Cho (2011) positioned trust as a central driver of loyalty in B2C online market. Reichheld and Scheffer (2000) noted that it is necessary to first

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