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Has behavioural loyalty to online supermarkets declined?

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ABSTRACT

This paper investigates consumer's behavioural loyalty to online supermarkets over time. We use three measures of behavioural loyalty (share of category requirements, repertoire size, and polarisation index) from four major online supermarkets in the UK across five categories. We find that loyalty to online supermarkets is high in the categories we examined, though it declined somewhat from 2005 to 2009 and subsequently remained stable from 2010 to 2014. We also extensively test the generalisability of the well-known Dirichlet model to the choice of online supermarkets. We find that the model gives better fit from 2010 to 2014 than from 2005 to 2009 and can describe loyalty and competition in this context.

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1. Introduction

Online retailing is revolutionizing the retail landscape (Wood, 2011) with over three-quarters of all United Kingdom (UK) citizens have purchased goods online (Office for National Statistics, 2015). After a slow adoption by apparently hesitant consumers (Elliot and Fowell, 2000; Freeman, 2009; Geuens et al., 2003; Pavitt, 1997; Ramus and Nielsen, 2005) online sales grew from \$1B in 1995 (Lohse and Spiller, 1998; Schmid et al., 1996) to almost \$2T in 2016 (eMarketer, 2016). Today, online retail accounts for just over 8% of all retail sales and is projected to increase to around 14% by 2020 (Business Wire, 2016; eMarketer, 2016). Online retail is continuing to grow both regarding total dollar spend and as a proportion of total retail and supermarket sales. In this context, it is important to understand if consumers' behavioural loyalty to online supermarkets has decreased, remained stable or increased during the previous decade.

Arguably it is harder to retain customers due to increased competition and minimal customer switching costs in the online environment, which is why this is of particular interest to retailers (Srinivasan et al., 2002). There have not been any long-term studies investigating how consumers allocate their purchases for a given category over the available online supermarkets and how this might have evolved. There have, however, been some studies that have captured online retailer loyalty in a short period. For example, Huang (2011), using household panel data from the United States over a one year period (2007), shows that there is excess loyalty to online retailers compared to a theoretical benchmark. Melis

et al. (2015) found that shoppers initially tended to purchase from the same supermarket brand online from which they already purchased from offline. Elms et al. (2016) also found that consumers bought from their preferred offline supermarket when they first purchased online. However, Dawes and Nenycz-Thiel (2014) recent research comparing online supermarket purchasing patterns in the UK between 2008 and 2010, found increased cross-supermarket purchasing over the two years. Given the importance of online store loyalty to all online retailers, this early indication of decline is worth exploring further, especially since prior research in the area is insufficient. Both the absolute level and the evolution of loyalty to online supermarkets have important implications for those businesses specifically, but also potentially to other retailers employing similar models. The issue is one of understanding the prevailing competitive dynamic in the market place – is it more akin to subscription or repertoire markets (Sharp et al., 2002) and what are the likely future dynamics?

While these previous studies show some insights, they do not provide any coherent picture of the dynamic of loyalty to online supermarkets, particularly over the long term. Such a study might allow us to gauge the likely path of future loyalty to online supermarkets. We, therefore, conduct analyses across ten years (2005 to 2014) to assess the evolution of the dynamics of online supermarket loyalty.

2. Loyalty measures

As this study investigates behavioural loyalty, we use the three following measures: share of category requirements, repertoire size, and polarisation index. Although SCR is one of the most important measures of brand loyalty (Farris et al., 2006), defining brand loyalty in this way has some problems (Danaher et al., 2003). For example, consumers who repeat purchase the same brand, even

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when it is on price promotion, are being loyal (Allenby and Rossi, 1991), and furthermore, it does not take into account category purchase rate (effectively the 'scale'). Higher levels of category purchasing are likely to be associated with lower SCR for its brands via the mechanism of larger repertoires. We therefore include repertoire size as a second measure as it is said to be a natural measure of loyalty (Colombo and Jiang, 2002). However, using repertoire size as a measure of loyalty is also not without its problems. Again this measure is confounded by category purchase rate; the larger the category purchase rate, the higher the repertoire size (Colombo and Jiang, 2002; Stern and Hammond, 2004). We, therefore, use the third measure of loyalty, namely polarisation index. We now discuss the advantages and disadvantages of each of the measures in more detail.

2.1. Share of category requirements

We first measure share of category requirements (SCR), one of the most common measures of loyalty since the earliest days of household diary reporting (Bhattacharya et al., 1996). SCR has been applied when investigating online brand loyalty (Danaher et al., 2003) and the loyalty to manufacturer and store brands (Romaniuk et al., 2014). SCR is a measure of how much the buyers of each brand satisfy their product needs by purchasing that particular brand (Uncles et al., 1994); therefore, the higher SCR, the greater brand loyalty.

SCR use is widespread in industry and academia (e.g. in Danaher et al., 2003; Fader and Schmittlein, 1993; Bhattacharya et al., 1996; Bhattacharya, 1997; Ehrenberg et al., 2004; Johnson, 1984; Reibstein, 2002; Stern and Hammond, 2004; Tellis, 1988; Dawes, 2013; Romaniuk et al., 2014; Dall'Olmo Riley et al., 2016), making it a most practical measure for behavioural loyalty.

SCR has also been used for bricks and mortar supermarkets. The first studies analysed nine supermarket stores within the US (Uncles and Hammond, 1995; Uncles et al., 1995). On average shoppers allocated 19% of their supermarket requirements to each of the stores that they had purchased from. A further study analysed six categories across eight major Chinese cities. This research found Chinese shoppers allocated on average 27–30% of their shopping needs to a store type (as opposed to store brand, Uncles and Kwok, 2008; Uncles and Kwok, 2009). When looking at store chains as the 'brand' within Shanghai, the average increased to 38% (Uncles and Kwok, 2009). Further analyses by the authors identified a double jeopardy pattern (McPhee, 1963) with the largest supermarkets having a greater number of shoppers who purchased from them more often and spent more money within those stores (Bhat and Fox, 1996; Wright et al., 1998). This is a well-established pattern for consumer goods categories.

However, while these studies describe the relationship between size and loyalty – there is no analysis of the loyalty towards online supermarkets or, importantly, how this loyalty evolves. This paper, therefore, uses SCR in the context of online supermarket loyalty (e.g. loyalty to Tesco, Asda, Sainsbury's and Waitrose) instead of brand loyalty. We, however, look at online supermarket loyalty for category purchasing rather than the entire basket. Our first research question is therefore:

RQ 1: How does the share of requirements for online supermarkets evolve over time?

2.2. Repertoire sizes

Consumers purchase more than one brand within a category. The smaller group of brands typically bought by a consumer from all the available category brands is called a repertoire. Several studies have analysed the size of consumer's repertoires in various circumstances.

Researchers found that the average Australian fuel buyer purchased fuel from 2.6 of the possible six brands within a 12-week period (Sharp et al., 2002). Similarly, the average Australian beer drinker was found to purchase 2.8 beer brands of the possible six analysed (Dawes, 2008). Further empirical evidence was found examining four consumer goods categories, discovering that the average repertoire size was 2.4 brands (Trinh, 2014). The largest empirical study analysed over 122 consumer goods categories. Banelis et al. (2013) found that over the course of 3 months, consumers purchased 1.5 brands (of a possible 20) on average. As the time frame of analysis increased, so did the average repertoire size too. In a 12-month period, the average consumers had purchased 2.4 brands, ranging from 5.8 (sugar and chocolate confectionery) to 1.2 (cold treatment medicines).

There has also been evidence to suggest that non-tangible products have similar repertoire sizes. Sharp et al. (2002) found that the average New Zealand and Australian credit card holder had 1.2 brands within a 10–12 week period. Mundt et al. (2006) analysed the Australian banking consumers and found that they used on average 1.8 financial institutions for their banking needs. The academic literature contains similar results for the insurance industry (average repertoire of 1.5 brands, Mundt et al., 2006) and long-distance telecommunication providers (average repertoire of 1.2 brands, Sharp et al., 2002). Except for Banelis et al. (2013) and Trinh (2014), no studies have documented repertoire size over an extended period. While both studies documented repertoires sizes for periods of 12 months or more, we are comparing 12-month periods of time over a decade, and thus are looking at repertoire evolution over the long term for time periods of the same length. Furthermore, to the best of our knowledge, there has not been any study investigating online supermarket repertoire sizes.

In this paper, repertoire size is the number of online supermarkets consumers purchase from in each 12-month period. By comparing 12-month periods, we can identify the dynamics in repertoire size and hence loyalty. So, if a consumer bought a product from multiple online supermarkets last year and only purchased from one online retailer this year, then the consumer can be viewed as being more loyal to online supermarkets this year than last. Our second research question is therefore:

RQ 2: How does the repertoire size for online supermarkets evolve over time?

2.3. Polarisation index

Polarisation index (ϕ) captures changes in the heterogeneity in consumer choice. ϕ ranges between zero and one, where zero indicates pure homogeneity in consumer choice (i.e., all buyers have the same propensity to purchase from individual retailers), and one indicates pure heterogeneity (i.e., each consumer purchases only from their favourite store, Fader and Schmittlein, 1993; Sabavala and Morrison, 1977). Many studies use ϕ when examining consumer loyalty (e.g., Fader and Schmittlein, 1993; Corsi et al., 2011; Dawes et al., 2015; Sabavala and Morrison, 1977) and is the best measure of loyalty (Rungie and Laurent, 2012). ϕ is estimated using the Dirichlet-multinomial negative binomial model (known as the Dirichlet model in marketing literature). An analysis of 127 repertoire markets found that 98% of them had polarisation figures lower than 0.62 (Driesener, 2017). The result provides us with a useful benchmark when interpreting this data. Our third research question is therefore:

RQ 3: How does the polarisation index for online supermarkets evolve over time?

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